

FRANCIS MARION UNIVERSITY

Independent Auditors' Report

**Financial Statements and Schedules
For the Year Ended June 30, 2011**

FRANCIS MARION UNIVERSITY

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CLINE BRANDT KOCHENOWER
& Co., P.A.
Certified Public Accountants
Established 1950

Independent Auditors' Report

To the Honorable Nikki R. Haley,
Governor of the State of South Carolina
And the Board of Trustees of
Francis Marion University
Florence, South Carolina

We have audited the accompanying financial statements of the business-type activities of Francis Marion University, a department of the State of South Carolina, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Francis Marion University Foundation. The Francis Marion University Foundation reflects 100% of total assets, 100% of net assets, and 100% of total revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Francis Marion University Foundation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Francis Marion University Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the University are intended to present the financial position, changes in net assets and cash flows, where applicable, of only that part of the business type activities that are attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of South Carolina, as of June 30, 2011, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Francis Marion University and its discretely presented component unit, as of June 30, 2011, and the changes in financial position, and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2011 on our consideration of Francis Marion University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Francis Marion University's financial statements as a whole. The accompanying schedule of expenditures of federal awards listed in the single audit section of the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations and is also not a required part of the financial statements of Francis Marion University. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in blue ink, appearing to read "Clint Brantley, CPA". The signature is fluid and cursive, with a horizontal line extending from the end.

August 31, 2011

FRANCIS MARION UNIVERSITY

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis provides an overview of the financial position and activities of Francis Marion University for the year ended June 30, 2011 with selected comparative information for the year ended June 30, 2010. This discussion is presented along with financial statements and related footnote disclosures of the University and its component unit. The discussion and analysis is limited to the University and its focus is on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and footnotes. Separately issued financial statements of the component unit are available from management of the component unit. The report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement and its purpose is to present to the readers of the financial

statements a fiscal snapshot of Francis Marion University. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and nets assets (assets minus liabilities). Current assets are those which are reasonably expected to be realized in cash or sold or consumed within one year. Current liabilities are obligations whose liquidation is expected to require the use of current assets.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the equity in property, plant, and equipment owned by the University. The next category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the University.

Condensed Statement of Net Assets

| | 2011 | 2010 | Increase/ (Decrease) | Percent Change |
|---|----------------------|----------------------|-------------------------|-------------------|
| Assets: | | | | |
| Current assets | \$ 18,033,862 | \$ 14,750,823 | \$ 3,283,039 | 22.26% |
| Capital assets, net of accumulated depreciation | 68,096,001 | 57,791,346 | 10,304,655 | 17.83% |
| Other noncurrent assets | 9,085,150 | 21,113,755 | (12,028,605) | (56.97%) |
| Total assets | 95,215,013 | 93,655,924 | 1,559,089 | 1.66% |
| Liabilities: | | | | |
| Current liabilities | 6,875,656 | 5,596,291 | 1,279,365 | 22.86% |
| Noncurrent liabilities | 13,059,131 | 13,280,861 | (221,730) | (1.67%) |
| Total liabilities | 19,934,787 | 18,877,152 | 1,057,635 | 5.60% |
| Net assets: | | | | |
| Invested in capital assets, net of debt | 64,993,944 | 57,494,448 | 7,499,496 | 13.04% |
| Restricted - nonexpendable | 200,000 | 200,000 | - | 0.00% |
| Restricted - expendable | 1,338,612 | 8,155,165 | (6,816,553) | (83.59%) |
| Unrestricted | 8,747,670 | 8,929,159 | (181,489) | (2.03%) |
| Total net assets | \$ 75,280,226 | \$ 74,778,772 | \$ 501,454 | 0.67% |

The Statement of Net Assets shows an increase in assets and an increase in liabilities resulting in an overall increase in net assets. Significant changes on the Statement of Net Assets are as follows:

- Total assets of the University increased by \$1.56 million.
- The increase in current assets was primarily attributable to an increase in unrestricted cash that resulted from the receipt of \$2.81 million in State Fiscal Stabilization Funds.
- The increase in capital assets is mainly attributable to the continued construction of the performing arts center and the new construction on the athletic complex. This also accounts for a significant decrease in other noncurrent assets as the restricted funds set aside for these projects were spent.
- Total liabilities increased by \$1.06 million.
- An increase in current liabilities is largely due to an increase in accounts payable. The amount is primarily composed of amounts for construction that was completed but not yet paid for at year end.

- The decrease in noncurrent liabilities is largely due to increased amount in the leases and bonds payable that are now categorized as current liabilities.
- Total net assets increased by \$501 thousand. A large portion of the restricted funds that were intended for construction were spent throughout the year causing both the decrease in restricted expendable assets and the increase in capital assets.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenue, expenses, gains, and losses received or spent by the University. Operating revenues are those that are earned in exchange for goods or services provided while carrying out the

mission of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

The Statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting. Accrual accounting attempts to record the financial effects of transactions on an entity in the period in which those transactions occur rather than in the period in which cash is received or paid. Revenues are recognized when services or goods are provided. Expenses are recognized when resources are utilized in order to produce goods or services.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

| | 2011 | 2010 | Increase/ (Decrease) | Percent Change |
|--|----------------------|----------------------|-------------------------|-------------------|
| Revenues: | | | | |
| Student tuition and fees | \$ 19,502,183 | \$ 17,817,052 | \$ 1,685,131 | 9.46% |
| Grants and contracts | 8,805,949 | 8,596,765 | 209,184 | 2.43% |
| Sales and services | 1,267,354 | 1,326,747 | (59,393) | (4.48%) |
| Other operating revenues | 956,122 | 969,745 | (13,623) | (1.40%) |
| Total operating revenues | 30,531,608 | 28,710,309 | 1,821,299 | 6.34% |
| State appropriations | 11,057,975 | 13,396,887 | (2,338,912) | (17.46%) |
| Grants | 13,273,972 | 11,561,219 | 1,712,753 | 14.81% |
| Gifts | 1,298,217 | 2,355,088 | (1,056,871) | (44.88%) |
| Investment income | 178,746 | 1,239,633 | (1,060,887) | (85.58%) |
| Other nonoperating revenues | 263,345 | 224,650 | 38,695 | 17.22% |
| Total nonoperating revenues | 26,072,255 | 28,777,477 | (2,705,222) | (9.40%) |
| Total revenues | 56,603,863 | 57,487,786 | (883,923) | (1.54%) |
| Expenses: | | | | |
| Compensation and employee benefits | 36,438,920 | 36,153,030 | 285,890 | 0.79% |
| Services and supplies | 8,876,661 | 7,081,334 | 1,795,327 | 25.35% |
| Utilities | 1,865,486 | 1,843,285 | 22,201 | 1.20% |
| Depreciation | 2,170,467 | 2,124,976 | 45,491 | 2.14% |
| Scholarships | 6,869,007 | 6,183,426 | 685,581 | 11.09% |
| Total operating expenses | 56,220,541 | 53,386,051 | 2,834,490 | 5.31% |
| Interest expense | 423,222 | 256,336 | 166,886 | 65.10% |
| Total nonoperating expenses | 423,222 | 256,336 | 166,886 | 65.10% |
| Total expenses | 56,643,763 | 53,642,387 | 3,001,376 | 5.60% |
| Income (loss) before other revenues, expenses, gains, losses, and transfers | (39,900) | 3,845,399 | (3,885,299) | (101.04%) |
| Capital gifts | 338,569 | 783,441 | (444,872) | (56.78%) |
| Capital federal grants | 202,785 | | 202,785 | 100.00% |
| Increase (decrease) in net assets | 501,454 | 4,628,840 | (4,127,386) | (89.17%) |
| Net assets - beginning of year | 74,778,772 | 70,149,932 | 4,628,840 | 6.60% |
| Net assets - end of year | \$ 75,280,226 | \$ 74,778,772 | \$ 501,454 | 0.67% |

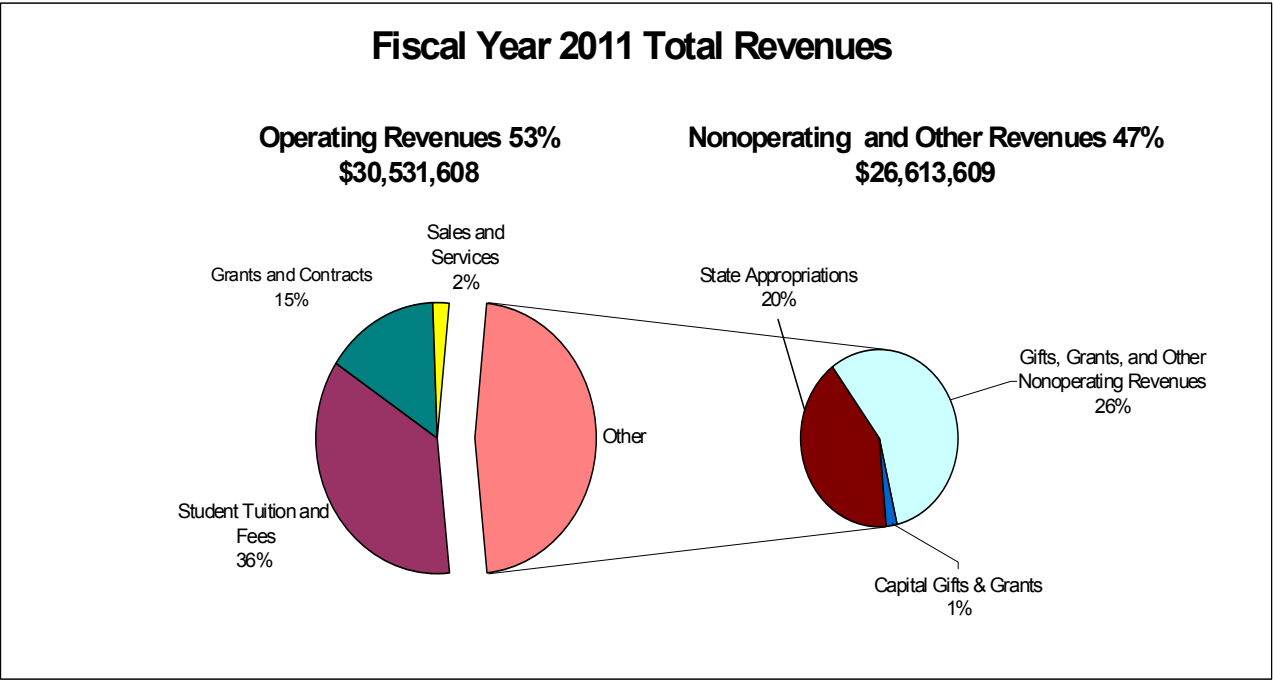
The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in net assets for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- The University experienced a \$1.82 million increase in operating revenues. This is largely

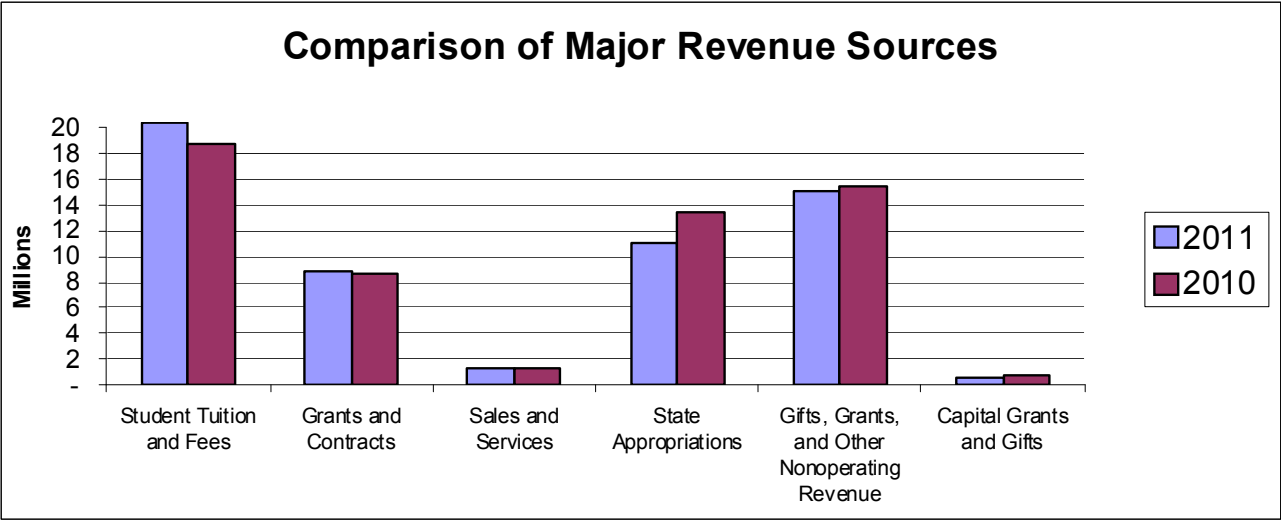
due to the 6.5% increase in tuition per semester for the 2010-2011 school year.

- The decrease in non-operating revenue of approximately \$2.7 million is primarily due to the continued decline in state appropriations. There were also significant decreases in the fair market value of our investment accounts, as well as a decrease in gift revenue.

The following graph presents the sources of revenue used to fund the University for the year.



The graph below, comparing 2011 revenue sources to 2010, illustrates the changes in major revenue sources.

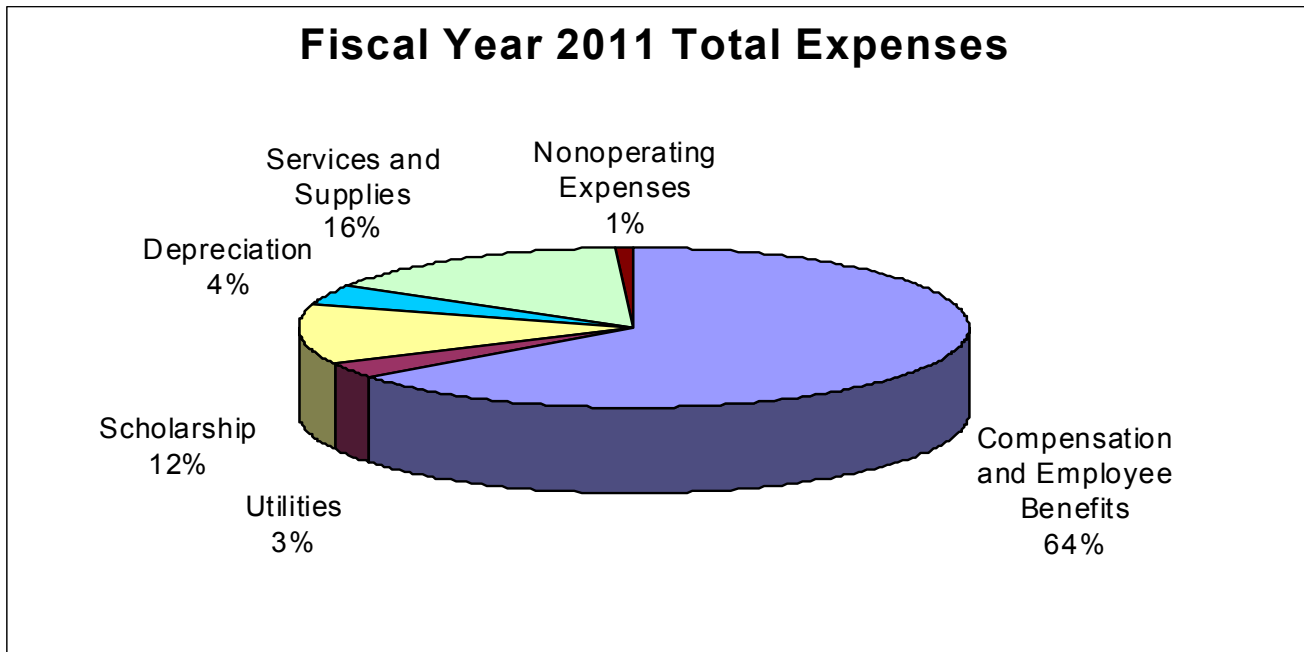


- Total operating expenses have increased \$2.8 million.

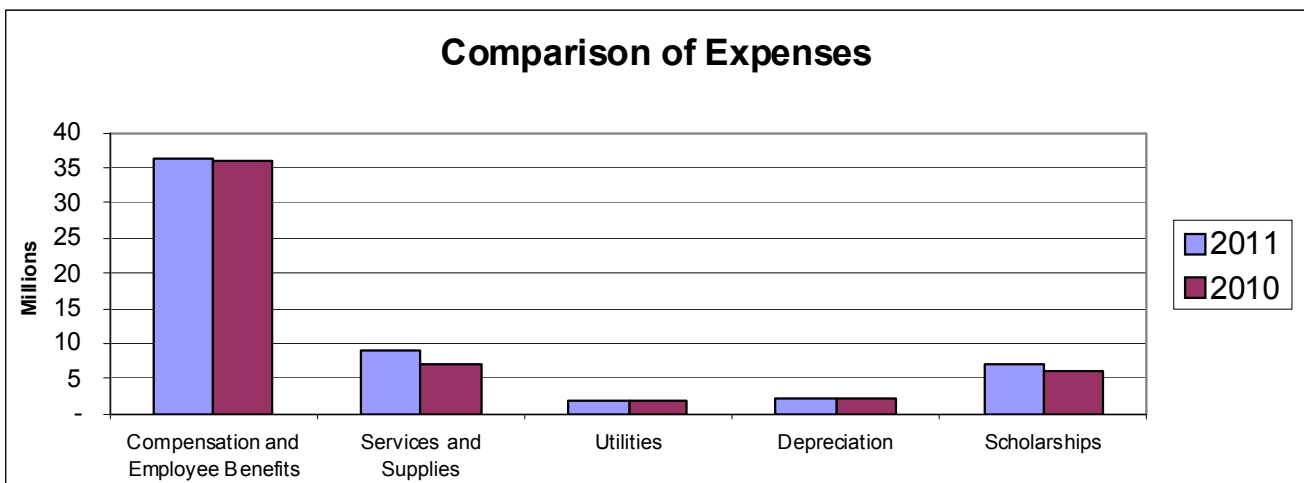
The increase in services and supplies expense is due to the funds expended to renovate the dining hall, as well as, several other improvement and maintenance projects.

- The increase in scholarship expense is due to the increase in the amount of Pell monies awarded, which was offset somewhat by an increase in scholarship discounts.
- An increase in interest expense occurred because of the continued payment of interest charges on the Athletic Facility Revenue Bonds.

The following graph displays expense categories.



The graph below compares 2011 expenses to the subsequent year and illustrates the changes in major expense types.



Statement of Cash Flows

The final statement presented by Francis Marion University is the Statement of Cash Flows. The Statement of Cash Flows gives detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first section presents operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities and displays the cash received and spent for noncapital financing purposes. The third section exhibits cash flows from capital and related financing activities and shows cash used for the acquisition and construction of capital and related items. The fourth part gives the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss displayed on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Assets and Debt

Total capital assets net of depreciation for the University is \$68,096,001 at June 30, 2011. Construction in progress of \$36,680,538 consists of payments for architect fees for a building for the schools of education and business. It also consists of the ongoing construction of the performing arts center and the new construction begun on the athletic complex. Please see note 6 of the financial statements for further details.

Debt on capital assets is \$8,453,445. Details of the bonds and capital leases are available in notes 12, 13, and 14.

Economic Outlook

Francis Marion University is one of the state-supported universities of South Carolina, and its appropriations are closely tied to the state's financial outlook. Because of the state's sluggish economy, reductions in appropriations for the University in the last few years have been substantial. For the year ending June 30, 2009 appropriations were \$14,693,807 while for the year ending June 30, 2010 they fell to \$13,396,887, and for 2011 to \$11,057,975. In 2010 and 2011 the South Carolina General Assembly allocated \$2,588,272 and \$2,811,497 in federal State Stabilization Funds, respectively, but for 2012 there will not be an allocation. Management planned for the reduction in appropriations and the University has continued its mission without the loss of jobs or forced furloughs through cost reduction, tuition increases and enrollment that is good. However, since the future economic outlook is still uncertain, the University's management will continue to monitor economic factors and make adjustments if needed to insure the overall financial position is sound.

The University's current financial position is stable and current appropriations and tuition are adequate to fund the operations for the ensuing year. The University does not plan to materially reduce operations or curtail any planned improvements.

Francis Marion University
Statement of Net Assets
June 30, 2011

ASSETS

Current Assets

| | |
|--|-------------------|
| Cash and cash equivalents | \$ 15,759,395 |
| Accounts receivable (net of allowance for doubtful accounts \$257,391) | 957,785 |
| Contributions receivable, net | 113,304 |
| Accrued interest receivable | 89,807 |
| Due from Francis Marion University Foundation | 18,071 |
| Prepaid expenses | 1,095,500 |
| Total current assets | 18,033,862 |

Noncurrent Assets

| | |
|--|-------------------|
| Restricted cash and cash equivalents | 6,146,192 |
| Contributions receivable, net | 780,792 |
| Notes receivable - due from Francis Marion University Foundation | 218,335 |
| Perkins loans receivable | 1,939,831 |
| Capital assets, net of accumulated depreciation | 68,096,001 |
| Total noncurrent assets | 77,181,151 |
| Total assets | 95,215,013 |

LIABILITIES

Current Liabilities

| | |
|---|------------------|
| Accounts payable | 3,722,038 |
| Accrued payroll and related liabilities | 259,299 |
| Accrued compensated absences - current portion | 1,269,623 |
| Accrued interest payable | 34,217 |
| Student deposits - current portion | 87,100 |
| Deferred revenues and unearned student revenues | 893,781 |
| Capital leases payable - current portion | 32,214 |
| Notes payable - current portion | 13,519 |
| Bonds payable - current portion | 265,000 |
| Deposits held for others | 298,865 |
| Total current liabilities | 6,875,656 |

Noncurrent Liabilities

| | |
|---|-------------------|
| Accrued compensated absences | 868,687 |
| Student deposits | 61,700 |
| Deferred revenue | 2,394,105 |
| Capital leases payable | 37,292 |
| Notes leases payable | 125,420 |
| Bonds payable | 7,980,000 |
| Perkins liability | 1,591,927 |
| Total noncurrent liabilities | 13,059,131 |
| Total liabilities | 19,934,787 |

NET ASSETS

| | |
|---|----------------------|
| Invested in capital assets, net of related debt | 64,993,944 |
| Restricted for | |
| Nonexpendable | |
| Scholarships and fellowships | 200,000 |
| Expendable | |
| Scholarships and fellowships | 88,915 |
| Instructional department uses | 439,261 |
| Loans | 463,472 |
| Capital projects | 341,188 |
| Other | 5,776 |
| Unrestricted | 8,747,670 |
| Total net assets | \$ 75,280,226 |

The accompanying notes are an integral part of the financial statements.

Francis Marion University
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011

OPERATING REVENUES

| | |
|--|-------------------|
| Student tuition and fees (net of scholarship allowances of \$13,129,035) | \$ 19,502,183 |
| (of which \$669,054 of revenues are pledged for Athletic Facility Revenue Bonds) | |
| Federal grants and contracts | 1,675,938 |
| State grants and contracts | 7,049,898 |
| Local grants and contracts | 9,575 |
| Non-governmental grants and contracts | 70,538 |
| Sales and services of educational and other activities | 252,438 |
| Sales and services of auxiliary enterprises | 1,014,916 |
| Other operating revenues | 956,122 |
| Total operating revenues | 30,531,608 |

OPERATING EXPENSES

| | |
|---------------------------------------|---------------------|
| Salaries and wages | 28,246,943 |
| Benefits | 8,191,977 |
| Supplies and other services | 8,876,661 |
| Utilities | 1,865,486 |
| Scholarships | 6,869,007 |
| Depreciation | 2,170,467 |
| Total operating expenses | 56,220,541 |
| Operating income (loss) | (25,688,933) |

NONOPERATING REVENUES (EXPENSES)

| | |
|--|-------------------|
| State appropriations | 11,057,975 |
| Federal grants | 12,902,121 |
| State grants | 371,851 |
| Gifts | 1,298,217 |
| Investment income | 178,746 |
| Interest and other fees on capital asset related debt | (423,222) |
| Other nonoperating revenues (expense) | 263,345 |
| Net nonoperating revenue | 25,649,033 |
| Income (loss) before other revenues, expenses, gains, losses, and transfers | (39,900) |
| Capital gifts | 338,569 |
| Capital federal grants | 202,785 |
| Increase (decrease) in net assets | 501,454 |

| | |
|---|----------------------|
| Net assets - beginning of year | 74,778,772 |
| Net assets - end of year | \$ 75,280,226 |

The accompanying notes are an integral part of the financial statements.

Francis Marion University
Statement of Cash Flows
For the Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|----------------------------|
| Tuition and fees | \$ 19,676,454 |
| Grants and contracts | 8,702,416 |
| Sales and services of educational and other activities | 255,203 |
| Sales and services of auxiliary enterprises | 963,094 |
| Receipts for reimbursements | 4,215,276 |
| Payments to suppliers | (11,769,189) |
| Payments to employees | (29,642,586) |
| Payments for benefits | (8,583,674) |
| Payments for scholarships | (6,847,740) |
| Loans to students | (200,868) |
| Collection of loans | 131,935 |
| Inflows from Stafford loans | 30,107,909 |
| Outflows from Stafford loans | (30,158,840) |
| Inflows from agency funds | 8,252,105 |
| Outflows from agency funds | (8,349,219) |
| Other receipts | 1,260,051 |
| Net cash (used) by operating activities | <u>(21,987,673)</u> |

CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|--------------------------|
| State appropriations | 11,057,975 |
| Nonoperating grants | 13,274,143 |
| Gifts | 1,147,392 |
| Net cash flow provided by noncapital financing activities | <u>25,479,510</u> |

CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|----------------------------|
| Proceeds from capital debt | 138,939 |
| Capital grants and gifts received | 442,471 |
| Purchases of capital assets | (11,997,501) |
| Principal paid on bond payable | (255,000) |
| Principal paid on capital leases | (34,772) |
| Interest and fees | (444,970) |
| Net cash (used) by capital activities | <u>(12,150,833)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|-----------------------|
| Interest on investments | 282,453 |
| Net cash flows provided by investing activities | <u>282,453</u> |

| | |
|--|-----------------------------|
| Net change in cash | (8,376,543) |
| Cash and cash equivalents - beginning of year | <u>30,282,130</u> |
| Cash and cash equivalents - end of year | <u>\$ 21,905,587</u> |

The accompanying notes are an integral part of the financial statements.

Francis Marion University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2011

**Reconciliation of net operating revenues (expenses) to net cash provided
(used) by operating activities:**

| | |
|---|------------------------|
| Operating (loss) | (25,688,933) |
| Adjustments to reconcile net (loss) to net cash (used) by operating activities: | |
| Nonoperating revenues | 263,174 |
| Noncash gifts | 349,823 |
| Depreciation expense | 2,170,467 |
| Bad debts | 65,000 |
| Loan cancellations | 60,861 |
| Changes in asset and liabilities: | |
| Receivables net | (11,117) |
| Loans to students | (68,933) |
| Deferred charges and prepayments | 21,592 |
| Accounts payable | 813,433 |
| Accrued payroll and related liabilities | (21,882) |
| Deferred revenues and unearned student revenues | 45,871 |
| Perkins liability | (37,213) |
| Deposits held for others | (33,288) |
| Accrued compensated absences | 83,472 |
| Net cash (used) by operating activities | \$ (21,987,673) |

Noncash capital and related financing activities:

The University disposed of equipment with costs and accumulated depreciation of \$12,284.
The University received capital gifts with a cost of \$61,418.

The accompanying notes are an integral part of the financial statements.

Francis Marion University Foundation
Statement of Financial Position
December 31, 2010

ASSETS

| | |
|--------------------------------------|-------------------|
| Cash and cash equivalents | \$ 1,949,807 |
| Investments..... | 18,635,977 |
| Contributions receivable, net | 1,125,846 |
| Other receivables | 265,787 |
| Accrued interest receivable | 27,049 |
| Assets held in trust by others | 894,730 |
| Property and equipment, net | 1,147,654 |
| Other assets | 551,477 |
| Total assets | <u>24,598,327</u> |

LIABILITIES

| | |
|--|------------------|
| Accounts payable | 28,698 |
| Due to Francis Marion University | 90,189 |
| Note payable - Francis Marion University | 225,439 |
| Bonds payable | 1,232,496 |
| Total liabilities | <u>1,576,822</u> |

NET ASSETS

| | |
|--|----------------------|
| Unrestricted | 1,713,407 |
| Temporarily restricted | 9,403,276 |
| Permanently restricted | 11,904,822 |
| Total net assets | <u>23,021,505</u> |
| Total liabilities and net assets | <u>\$ 24,598,327</u> |

The accompanying notes are an integral part of the financial statements.

Francis Marion University Foundation
Statement of Activities
Six Month Period Ended December 31,2010

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| REVENUES, GAINS AND OTHER SUPPORT | | | | |
| Gifts and bequests | \$ 75,213 | \$ 1,161,925 | \$ 147,589 | \$ 1,384,727 |
| Trust income | - | 20,100 | - | 20,100 |
| Investment income | (4,697) | 292,264 | - | 287,567 |
| Management fees | - | 40,200 | - | 40,200 |
| Rent and other income | 38,545 | - | - | 38,545 |
| Net unrealized and realized gains (losses) on investments | (20,003) | 1,481,769 | - | 1,461,766 |
| Net assets released from program restrictions | 589,331 | (589,331) | - | - |
| Total revenues, gains and other support | 678,389 | 2,406,927 | 147,589 | 3,232,905 |
| EXPENSES | | | | |
| Program Expenses | 725,718 | | | 725,718 |
| General and administrative | 237,728 | - | - | 237,728 |
| Fundraising | 10,371 | - | - | 10,371 |
| Total expenses | 973,817 | - | - | 973,817 |
| Change in net assets | (295,428) | 2,406,927 | 147,589 | 2,259,088 |
| Net assets, June 30,2010, as restated | 2,008,835 | 6,996,349 | 11,757,233 | 20,762,417 |
| Net assets, December 31, 2010 | \$ 1,713,407 | \$ 9,403,276 | \$11,904,822 | \$23,021,505 |

The financial year end of the Foundation was changed from June 30 to December 31. Accordingly, the statement of activities is for 6 months from July 1, 2010 to December 31, 2010.

The accompanying notes are an integral part of the financial statements.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Francis Marion University (the University) is a State-supported coeducational institution of higher education. The University's primary purpose is to provide academic instruction to students and conduct research and other activities that advance fundamental knowledge.

The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education enterprise funds in the Comprehensive Annual Financial Report of the State of South Carolina.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* provides additional guidance concerning the inclusion of related party financial information as a part of the reporting entity. The accompanying financial statements present only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component unit.

The Francis Marion University Foundation (the Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. Copies of the separately issued

financial statements of the Foundation can be obtained by sending a request to Francis Marion University Foundation, Post Office Box 100547, Florence, South Carolina 29501

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

The Foundation is a private nonprofit organization that reports under FASB, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

Cash and Cash Equivalents

For purposes of the financial statements, the University and its component unit consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through South Carolina State Treasurer's Office are considered cash equivalents.

Investments

The University accounts for its investments at market value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

The Foundation's investment securities and donated negotiable assets are stated at fair value. Investment income, net of external and internal management

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

expenses and fees, gains and losses arising from the sale or other disposition of investments and other non-cash assets are distributed to the various funds using a pooled income approach. This approach distributes income following the market value unit method, which is based on the number of units each fund owns in the managed investment pool.

Accounts Receivable

Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated doubtful accounts.

Contributions Receivable

Contributions receivable consist of unconditional promises to give. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Contributions receivable are recorded net of estimated uncollectible amounts.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful lives of existing buildings are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life of two years or greater and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements, 3 years for computer software, and 2 to 25 years for machinery,

equipment, and vehicles.

Deferred Revenues and Deposits

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but relate to the subsequent accounting period. Deferred revenues also include deferred rental income and amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Accrued Compensated Absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as components of salaries and wages and benefits expenses in the statement of revenues, expenses, and changes in net assets.

Perkins Loans Receivable and Related Liability

The loans receivable on the balance sheet are due to the University under the Perkins Loan Program. The federal government funds this program with the University providing a required match. The amount reported as Perkins liability is the amount of cumulative federal contributions and a prorata share of net earnings on the loans under this program that would have to be repaid to the federal government if the University ceases to participate in the program. The University recognizes as revenue and expenses only the portion attributable to its matching contribution.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt:

This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Restricted net assets - expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources may be used at the discretion of the governing board to meet current expenses. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

The net assets of the Foundation are classified as follows:

Unrestricted net assets: The Foundation reports net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations as unrestricted net assets.

Temporary restricted net assets: Net assets that include gifts of cash and other assets which are received with donor stipulations that limit the use to specific program accomplishments or the passage of time.

Permanently restricted net assets: Net assets resulting from contributions and other inflows of assets whose use by the Foundation are limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise be removed by actions of the Foundation.

Income Taxes

The University, as a political subdivision of the State of South Carolina, is excluded from federal income taxes under Section 115(a) of the Internal Revenue Code, as amended.

Francis Marion University Foundation is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code and is exempt from taxes under Section 501(c)(3).

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Sales and Services of Educational and Other Activities

Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from community groups using campus facilities for summer camps and other activities.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Sales and Services of Auxiliary Enterprises and Internal Service Activities

Auxiliary enterprise revenues primarily represent revenues generated by the bookstore, dining services, and housing. Transactions between the University and its auxiliary enterprise activities and its internal service department have been eliminated.

Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student

charges, the University has recorded a scholarship discount and allowance.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS, DEPOSITS, AND INVESTMENTS

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. The following schedule reconciles deposits and investments within the footnotes to the statement of net assets amounts:

| <u>Statement of Net Assets</u> | | <u>Footnotes</u> | |
|--|----------------------|----------------------------------|----------------------|
| Cash and cash equivalents (current) | \$ 15,759,395 | Cash on hand | \$ 26,025 |
| Restricted cash and cash equivalents (noncurrent): | | Deposits held by State Treasurer | 21,879,562 |
| Grants and gifts | 539,383 | | |
| Perkins loan funds | 87,992 | | |
| Capital projects | 5,518,817 | | |
| Total | <u>\$ 21,905,587</u> | Total | <u>\$ 21,905,587</u> |

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Other Deposits

The Foundation maintains its cash balances in various financial institutions. As of December 31, 2010, there were uninsured amounts at the institutions of \$785,694.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Investments

The Foundation investments as of December 31, 2010, are summarized as follows:

| | |
|-------------------------|----------------------|
| Mutual funds | \$ 4,118,206 |
| Equity securities | 12,172,143 |
| Corporate bonds | 1,923,427 |
| Governmental securities | 422,201 |
| Total | <u>\$ 18,635,977</u> |

Financial instruments which potentially subject the Foundation to concentration of credit risk consist principally of investments in various debt securities. The exposure to concentrations of credit risk relative to investments is limited due to the Foundation's investment objectives and policies, as adopted by its Board of Directors.

NOTE 3 – RECEIVABLES

Accounts Receivable

The University accounts receivable as of June 30, 2011, are summarized as follows:

| | |
|---|-------------------|
| Current: | |
| Student tuition and fees | \$ 642,441 |
| Allowance for doubtful accounts | (257,391) |
| Federal grants and contracts | 152,075 |
| State and local grants and contracts | 46,201 |
| Sales and services of education departments | 9,800 |
| Auxiliary services | 145,782 |
| Other | 218,877 |
| Net accounts receivable | <u>\$ 957,785</u> |

The amounts shown above are reported at gross with all discounts and allowances disclosed.

The allowance for doubtful accounts for student accounts receivable is established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2011, the allowance for uncollectible student accounts is valued at \$257,391.

The University is reimbursed for contractual services provided to outsourced auxiliary contractors. Reimbursements due for these services at June 30, 2011, are \$23,340 and are included in accounts receivable – auxiliary services.

Contributions Receivable

Contributions receivable are comprised of pledges for gifts to support the University. Contributions receivable are accounted for at their estimated net

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

realizable value or the present value of long-term pledges.

The University contributions receivable as of June 30, 2011, are summarized as follows:

| | | |
|-------------------------------------|----|----------------|
| Current: | | |
| Gift Pledges Outstanding | \$ | 148,800 |
| Less discounts to net present value | | <u>35,496</u> |
| Net contributions receivable | \$ | <u>113,304</u> |
| Noncurrent: | | |
| Gift Pledges Outstanding | \$ | 892,800 |
| Less discounts to net present value | | <u>112,008</u> |
| Net contributions receivable | \$ | <u>780,792</u> |

The Foundation contributions receivable as of December 31, 2010, are summarized as follows:

| | | |
|---|----|--------------------|
| Unconditional promises expected to be collected in: | | |
| Less than one year | \$ | 833,779 |
| One year to five years | | <u>404,421</u> |
| | | 1,238,200 |
| Less discounts to net present value | | 82,354 |
| Less allowance for uncollectible contributions | | <u>30,000</u> |
| Net contributions receivable | | <u>\$1,125,846</u> |

The allowance is determined based upon management's judgment considering past history of write-offs. The discount for present value was the Foundation's effective earnings rate of 4.0%. The receivables from ten donors accounts for approximately 80% of the total contributions receivable.

NOTE 4 – LOANS RECEIVABLE

Student loans made through the federal Perkins loan program comprise substantially all of the loans receivable as of June 30, 2011. The Perkins loan program provides various repayment options; students have the right to repay the loans over

periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5 – ASSETS HELD IN TRUST BY OTHERS

The Foundation has a 30% interest in a trust created by an estate. The Foundation's ownership in these trusts is valued at \$894,730 at December 31, 2010.

NOTE 6 – CAPITAL ASSETS

Capital assets activity of the University for the year ended June 30, 2011, is summarized as follows:

| | Beginning Balance July 1, 2010 | Increases | Decreases | Ending Balance June 30, 2011 |
|--|--------------------------------------|----------------------|---------------|------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land and improvements | \$ 3,739,663 | \$ 37,465 | \$ - | \$ 3,777,128 |
| Construction in progress | 24,597,953 | 12,082,585 | - | 36,680,538 |
| Art work and historical treasures | 180,948 | 12,960 | - | 193,908 |
| Total capital assets not being depreciated | <u>28,518,564</u> | <u>12,133,010</u> | <u>-</u> | <u>40,651,574</u> |
| Other capital assets: | | | | |
| Land improvements | 3,276,618 | - | - | 3,276,618 |
| Buildings and improvements | 68,740,580 | - | - | 68,740,580 |
| Computer software | 131,895 | - | - | 131,895 |
| Machinery, equipment, and other | 3,203,176 | 293,654 | 12,284 | 3,484,546 |
| Vehicles | 226,910 | 48,458 | - | 275,368 |
| Total other capital assets at historical cost | <u>75,579,179</u> | <u>342,112</u> | <u>12,284</u> | <u>75,909,007</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 2,338,875 | 108,648 | - | 2,447,523 |
| Buildings and improvements | 41,162,805 | 1,805,557 | - | 42,968,362 |
| Computer software | 131,895 | - | - | 131,895 |
| Machinery, equipment, and other | 2,445,912 | 244,148 | 12,284 | 2,677,776 |
| Vehicles | 226,910 | 12,114 | - | 239,024 |
| Total accumulated depreciation | <u>46,306,397</u> | <u>2,170,467</u> | <u>12,284</u> | <u>48,464,580</u> |
| Other capital assets, net of accumulated depreciation | <u>29,272,782</u> | <u>(1,828,355)</u> | <u>-</u> | <u>27,444,427</u> |
| Capital assets, net of accumulated depreciation | <u>\$ 57,791,346</u> | <u>\$ 10,304,655</u> | <u>\$ -</u> | <u>\$ 68,096,001</u> |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Property and Equipment

Property and equipment of the Foundation as of December 31, 2010, consists of the following:

| | |
|-------------------------------|----------------------------|
| Land | \$ 120,900 |
| Building | 1,109,008 |
| Furniture and equipment | <u>67,033</u> |
| | 1,296,941 |
| Less accumulated depreciation | <u>149,287</u> |
| Property and equipment, net | <u><u>\$ 1,147,654</u></u> |

Depreciation expense of \$16,121 was recognized for the period ended December 31, 2010.

NOTE 7 – OTHER ASSETS

Included in the Foundation's other assets is the ownership in various parcels of real estate that are held with the intent to sell. The property is reported at a carrying value of \$520,096 as of December 31, 2010.

In addition, the Foundation has ownership in the cash surrender value of various life insurance policies valued at \$31,381 as of December 31, 2010.

NOTE 8 – PENSION PLAN

The Retirement Division of the State Budget and Control Board maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the five pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and

employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and

Effective July 1, 2006, employees participating in the SCRS were required to contribute 6.50 percent of all compensation. Effective July 1, 2010, the employer contribution rate remained at 13.14 percent which included a 3.90 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2011, 2010, and 2009, were approximately \$1,707,000, \$1,710,000, \$1,708,000, respectively, and equaled the required contributions of 9.24 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$27,700 in the current fiscal year at the rate of .15 percent of compensation. The University paid the employer's 9.24 percent share, included in

FRANCIS MARION UNIVERSITY
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the amount above, of approximately \$3,200 of pension costs for employees on educational leave with employees paying approximately \$2,300.

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2010, the employer contribution rate became 15.03 percent that, as for the SCRS, included the 3.50 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2011, 2010, and 2009, were approximately \$56,500, \$53,400, and \$53,300, respectively, and equaled the required contributions of 11.13 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$1,100 and accidental death insurance contributions of approximately \$1,000 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts that are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.24 percent plus the retiree surcharge of 3.90 percent from the employer in fiscal year 2011.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately \$847,600 (excluding the surcharge) from the University as employer and approximately \$596,200 from its employees as plan members. 4.24 percent of the total contributions were remitted to the Retirement Division of the State Budget and Control Board and 5.00 percent was remitted directly to the respective annuity policy holders. Also, the University paid employer group life insurance contributions of approximately \$13,800 in the current fiscal year at the rate of .15 percent of compensation. Included in the total contribution, the University paid the employer's 9.24 percent share of approximately \$10,200 of pension costs for employees on educational leave with employees paying \$7,100. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees

FRANCIS MARION UNIVERSITY
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eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period.

NOTE 9 – POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The University contributes to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State

statute to contribute at a rate assessed each year by the Office of the State Budget, 3.90% and 3.50% of annual covered payroll for 2011 and 2010, respectively. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The University paid approximately \$1,098,000 and \$982,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2011 and 2010, respectively. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 (July 2010 – December 2010) and \$3.22 (January 2011 – June 2011) for the fiscal years ended June 30, 2011 and \$3.23 per month for the fiscal year ending June 30, 2010.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

NOTE 10 – CONTINGENCIES, LITIGATION, AND COMMITMENTS

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

The University participates in certain federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of approximately \$8,847,602 at June 30, 2011, of which \$8,247,602 will be capitalized. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds. The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed

once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has \$255,932 of authorized undrawn state capital improvement bonds.

The Foundation is a 50% residuary beneficiary of a marital trust, which has a value of approximately \$2,025,731 as of December 31, 2010. The Foundation will receive its share of any remaining assets of the trust upon the death of the primary beneficiary.

NOTE 11 – DEFERRED REVENUES AND UNEARNED STUDENT REVENUES

Deferred revenues and unearned student revenues as of June 30, 2011, are summarized as follows:

| | |
|---|---------------------|
| Current: | |
| Student tuition and fees | \$ 602,733 |
| Grants and contracts | 182,636 |
| Housing rentals | 108,412 |
| Net deferred revenues and unearned student revenues | <u>\$ 893,781</u> |
| Noncurrent: | |
| Housing rental | <u>\$ 2,394,105</u> |
| Net deferred revenues and unearned student revenues | <u>\$ 2,394,105</u> |

NOTE 12 – LEASE OBLIGATIONS

Future commitments for leases as of June 30, 2011, are as follows:

| | Year Ending June 30, | Capital Lease Payments |
|-----------------------------|-------------------------|---------------------------|
| | 2012 | \$ 54,813 |
| | 2013 | 34,303 |
| | 2014 | <u>25,114</u> |
| Total minimum lease payment | | 114,230 |
| Less: Interest | | 3,557 |
| Executory and other costs | | <u>41,167</u> |
| Principal outstanding | | <u>\$ 69,506</u> |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Capital Leases

Capital leases for various equipment are payable in monthly installments from current resources. Certain capital leases provide for renewal and/or purchase options. The cost of assets held under capital leases totaled \$173,090 as of June 30, 2011. Accumulated amortization of the leases on this equipment totaled \$124,362 at June 30, 2011, resulting in a book value of \$48,728. Current year amortization expense on capital leases was \$34,618 and is included in depreciation expense. Interest expense on capital leases was \$3,633. The capital leases are with external parties.

Operating Leases

During fiscal year 2011, the University paid \$64,057 for copier leases on a cost per copy basis to external parties. The University also paid \$49,510 on equipment under cancelable operating leases, all of which was with other State agencies.

The Foundation entered into leases of space within its office building for a twelve month period ending June 30, 2011. The leases allow automatic renewal

unless notification is provided by the tenant. The Foundation recognized \$36,247 in rent revenue from these lease obligations. The University leased the largest portion of the space for \$17,477 for the 6 month period ending June 30, 2011.

Capital Leases – Lessor

During the 2006 fiscal year, the University received a donation of a building and agreed to lease the property back to the donor for 99 years at \$1 per year. No assets or liabilities related to this transaction are reflected in the University's financial statements due to immateriality of the amounts involved.

NOTE 13 – BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2011.

| | Interest Rates | Maturity Dates | Balance |
|---|-------------------|-------------------|--------------|
| Athletic Facilities Revenue Bonds, Series 2009A | 4.98 % | 2012 - 2029 | \$ 8,245,000 |

In 2010, the University issued Athletic Facilities Revenue Bonds, Series 2009A, in the amount of \$8,500,000. The proceeds of these bonds are being used to construct a new athletic complex. The bonds are secured by revenue derived from special student fees.

In 2008, the University defeased series 2005C State Institution Bonds by placing excess debt service on deposit to pay the bonds as they mature. The account assets and the liability for these defeased bonds are not included in the University's financial statements. At June 30, 2011, \$570,000 of bonds outstanding are considered defeased.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

The scheduled maturities of the Athletic Facilities Revenue bonds are as follows:

| Year Ended June 30, | Total Principal | Interest | Total Payments |
|------------------------|---------------------|---------------------|----------------------|
| 2012 | \$ 265,000 | \$ 404,003 | \$ 669,003 |
| 2013 | 280,000 | 390,432 | 670,432 |
| 2014 | 295,000 | 376,115 | 671,115 |
| 2015 | 310,000 | 361,050 | 671,050 |
| 2016 | 325,000 | 345,239 | 670,239 |
| 2017-2030 | 6,770,000 | 2,628,941 | 9,398,941 |
| Totals | <u>\$ 8,245,000</u> | <u>\$ 4,505,780</u> | <u>\$ 12,750,780</u> |

The Foundation has outstanding JEDA Bonds, requiring quarterly interest at Prime plus 2% through August 2008. After August 2008, monthly installments of principal and interest are due with the principal due on demand at the August 1, 2022 maturity date. As of June 30, 2010 \$1,232,496 remains outstanding.

Maturities on the bonds payable are scheduled as follows:

| Year Ending December 31, | |
|-----------------------------|---------------------|
| 2011 | \$ 66,926 |
| 2012 | 70,633 |
| 2013 | 74,935 |
| 2014 | 79,299 |
| 2015 | 83,916 |
| Thereafter | 856,787 |
| | <u>\$ 1,232,496</u> |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Notes Payable

The University's notes payable consists of the following at June 30, 2011:

| | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance</u> |
|--|--------------------------|--------------------------|----------------|
| State Energy Plan - ARRA agreement to replace HVAC system in the Smith University Center | Zero Percent | November, 2015 | \$ 67,595 |
| ConserFund Loan agreement for upgrades to the chiller plant | 3.00% | August, 2014 | \$ 71,344 |

The scheduled maturities of the notes payable are as follows:

| <u>Year Ended June 30,</u> | <u>Total Principal</u> | <u>Interest</u> | <u>Total Payments</u> |
|--------------------------------|----------------------------|-----------------|---------------------------|
| 2012 | \$ 13,519 | \$ - | \$ 13,519 |
| 2013 | 48,136 | 3,769 | 51,905 |
| 2014 | 31,611 | 1,102 | 32,713 |
| 2015 | 32,154 | 559 | 32,713 |
| 2016 | 13,519 | - | 13,519 |
| Totals | <u>\$ 138,939</u> | <u>\$ 5,430</u> | <u>\$ 144,369</u> |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 14 – LONG-TERM LIABILITIES

Long-term liability activity of the University for the year ended June 30, 2011, is as follows:

| | June 30, 2010 | Additions | Reductions | June 30, 2011 | Due within One year |
|--|------------------|--------------|--------------|------------------|------------------------|
| Bonds, note, and capital leases payable: | | | | | |
| Bonds payable | \$ 8,500,000 | \$ - | \$ 255,000 | \$ 8,245,000 | \$ 265,000 |
| Notes payable | - | 138,939 | - | 138,939 | 13,519 |
| Capital leases payable | 104,278 | - | 34,772 | 69,506 | 32,214 |
| Total payables | 8,604,278 | 138,939 | 289,772 | 8,453,445 | 310,733 |
| Other liabilities: | | | | | |
| Accrued compensated absences | 2,054,838 | 1,341,398 | 1,257,926 | 2,138,310 | 1,269,623 |
| Perkins federal capital contributions | 1,628,055 | - | 36,129 | 1,591,926 | - |
| Student deposits | 137,400 | 110,750 | 99,350 | 148,800 | 87,100 |
| Deferred housing rentals | 2,610,930 | - | 108,413 | 2,502,517 | 108,412 |
| Total other liabilities | 6,431,223 | 1,452,148 | 1,501,818 | 6,381,553 | 1,465,135 |
| Total long-term liabilities | \$ 15,035,501 | \$ 1,591,087 | \$ 1,791,590 | \$ 14,834,998 | \$ 1,775,868 |

NOTE 15 – ENDOWMENTS

Donor Restricted Permanent Endowments

Endowments are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. The University's endowments require that the income be used for specific purposes. These restrictions are discussed in Note 16. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the

endowment fund investments. Any net appreciation is required to be spent for the purposes for which the endowment was established.

NOTE 16 – COMPONENT UNIT

Various financial activities occurred between the University and the Foundation. A summary of transactions and/or balances at June 30, 2011, and for the year then ended follows.

- | | | |
|----|---|------------|
| a) | Scholarships awarded by the University and funded by the Foundation. The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense. | \$ 636,531 |
| b) | Awards for lectures, grants, special programs, and certain other expenses paid by the University and funded by the Foundation. (Includes \$881 owed to the University at June 30, 2011, and included in amount due from the Foundation.) The University recorded these awards as gift revenue and the applicable operating expense. | \$ 82,471 |
| c) | Personal service payments to professors holding endowed chairs made by the University and funded by the Foundation. The University recorded these amounts as gift revenue and salary expense. | \$ 106,750 |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

- d) Reimbursements for University employee time and other costs paid by the University on behalf of the Foundation and reimbursed by the Foundation. The University recorded these reimbursements as reductions of the applicable operating expenses. \$ 60,597

- e) Group life insurance premium payments made by the University and funded by the Foundation. (Includes \$503 owed to the University at June 30, 2011, and included in amount due from Foundation.) The University recorded these amounts as gift revenue and benefits expense. \$ 6,354

- f) Gifts received from the Foundation for construction of the Performing Arts Center. (Includes \$2,272 owed to the University at June 30, 2011) \$ 292,577

- g) Payments by the Foundation for the benefit of the University and its staff included \$27,078 for club memberships, \$38,805 for other goods and services, \$1,142 for furniture and appliances, \$40,993 for special events and \$28,466 for travel. The University recorded these amounts as gift revenue and the applicable operating expense.

- h) The Foundation owes the University \$6,677 for revenue and taxes collected for the faculty-alumni facility which is included in due from Foundation.

- i) The University paid the Foundation \$65,000 for the management of the Non-Profit Leadership Institute.

- j) The University continued a loan agreement with the Foundation in which the University lent the Foundation \$200,000 (all of its endowment assets). The Foundation agrees to make payments to the University on behalf of the recipients of the two Palmetto Professorships. This award will be made only when the chairs are actually occupied, and any earnings above the established level shall be returned to the principal and accrue accordingly. For fiscal year 2011, the endowment lost \$3,604 which was reduced from principal. As of June 30, 2011, the outstanding principal balance is \$218,335. Lending of the University's endowment resources to the Foundation is in accordance with Section 59-101-410 of the South Carolina Code of Laws which authorizes the governing boards of state-supported universities to lend their endowment and auxiliary enterprise monies on deposit with the State Treasurer's Office to separately chartered not-for-profit legal entities whose purpose is primarily providing financial assistance and other support to the institution and its educational program.

- k) The University is owed \$7,738 for reimbursement of various expenses paid by the University.

- l) The University has lease agreements with the Foundation of \$34,995 for rental of office space. The University provided janitorial services, refuse disposal, and ground maintenance.

- m) The Foundation gifted the University a 3.11 acre parcel of land with a value of \$37,465, which was recorded as a capital gift by the University.

NOTE 17 – RELATED PARTIES

The FMU Student Housing, LLC (LLC), a single member limited liability company owned by the Francis Marion University Real Estate Foundation, leases all the University's on-campus housing, composed of fourteen apartment style facilities and six dormitory style facilities having an aggregate of

1112 beds and 8.96 acres of land for their 427 bed apartment complex. The lease agreement provides for the University to be paid any net available cash flow from the operation less any amount agreed upon by the University and the LLC. The determination of net available cash flow requires the LLC's annual audit to be completed with financial statements indicating a debt service coverage ratio of at least 1.25 and that all expenses, debt service, and deposits

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

to the repair and replacement fund have occurred in accordance with bond documents. Rental income from housing operations for fiscal year 2011 is \$108,412, a portion of the advanced rent paid by the Real Estate Foundation in 2004, and an additional rental payment of \$198,371 from available net cash flow.

The University collects as part of its student fee collection process student housing deposits, fees, and fines. All collections, excluding housing deposits, are remitted to the LLC. Collections due to the LLC at June 30, 2011, are \$247,638 and are included in accounts payable.

The University provides the LLC management services related to the student housing facilities. This agreement continues for successive one year terms unless either the LLC or the University elects to terminate in writing. The negotiated fee is currently \$135,000. Under this agreement, the University pays for expenses related to the housing operation and is reimbursed by the LLC. At June 30, 2011, the LLC owes the University \$10,890 and these amounts are included in accounts receivable – auxiliary services.

During the year, the LLC advanced the University \$340,812 for reimbursements of summer housing repairs. At June 30, 2011 the unspent portion of \$153,659 was recorded as deposits held for others.

Reimbursements for University employee time paid by the University on behalf of the Real Estate Foundation were \$39,749. The University recorded these reimbursements as reductions of the applicable operating expenses. The Real Estate Foundation paid \$162,291 for an athletic bus, various supplies, and contractual services on behalf of the University. The University recorded these gifts as \$53,642 in capital assets and \$108,649 in applicable operating expenses.

NOTE 18 – RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such

coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several state funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Business interruptions
- Natural disasters
- Medical malpractice claims against covered employees

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 19 – EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2011, are summarized as follows:

| | Salaries and Wages | Benefits | Supplies and other Services | Utilities | Scholarships | Depreciation | Total |
|---------------------------------------|--------------------------|---------------------|-----------------------------------|---------------------|---------------------|---------------------|----------------------|
| Instruction | \$ 15,899,496 | \$ 4,386,856 | \$ 1,154,020 | \$ 73,920 | \$ - | \$ - | \$ 21,514,292 |
| Research | 124,016 | 30,186 | 37,216 | - | - | - | 191,418 |
| Public service | 1,054,276 | 254,125 | 459,405 | 9,819 | - | - | 1,777,625 |
| Academic support | 1,934,349 | 589,058 | 1,501,637 | 13,603 | - | - | 4,038,647 |
| Student services | 2,578,168 | 759,158 | 1,480,550 | 39,251 | - | - | 4,857,127 |
| Institutional support | 3,452,036 | 1,043,170 | 764,227 | (127,920) | - | - | 5,131,513 |
| Operation and maintenance of plant | 3,194,744 | 1,128,133 | 3,344,813 | 1,814,569 | - | - | 9,482,259 |
| Depreciation | - | - | - | - | - | 2,170,467 | 2,170,467 |
| Scholarships | - | - | - | - | 6,869,007 | - | 6,869,007 |
| Auxiliary Enterprises | 9,858 | 1,291 | 134,793 | 42,244 | - | - | 188,186 |
| Total operating expenses | <u>\$ 28,246,943</u> | <u>\$ 8,191,977</u> | <u>\$ 8,876,661</u> | <u>\$ 1,865,486</u> | <u>\$ 6,869,007</u> | <u>\$ 2,170,467</u> | <u>\$ 56,220,541</u> |

NOTE 20 – STATE APPROPRIATIONS

The following are the appropriations as enacted by the General Assembly and reported in the financial statements for the fiscal year ended June 30, 2011:

NON-CAPITAL APPROPRIATIONS

| | |
|---|----------------------|
| Current year's appropriations: | |
| Original appropriations per Annual Appropriations Act | \$ 10,576,581 |
| Supplemental Appropriations | |
| Health and Dental Insurance | 126,469 |
| SCDE-Education Improvement Act | 350,000 |
| From Commission on Higher Education: | |
| Academic Incentive Endowment Match | 4,925 |
| Total non-capital appropriations recorded as current year revenue | <u>\$ 11,057,975</u> |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 21 – NONOPERATING FEDERAL GRANTS

Nonoperating Federal grants for the year ended June 30, 2011, are summarized as follows:

| | |
|-----------------------------------|----------------------|
| State Fiscal Stabilization Funds | \$ 2,811,497 |
| Federal Pell Grant Program - 2010 | 224,791 |
| Federal Pell Grant Program - 2011 | 9,865,833 |
| Total | <u>\$ 12,902,121</u> |

NOTE 22 – STATEMENT OF ACTIVITIES

The following information is provided for incorporation in the State of Carolina Comprehensive Annual Financial Report:

| | Year ended June 30, 2011 | 2010 |
|------------------------------------|-----------------------------|----------------------|
| Charges for services | \$ 29,575,486 | \$ 27,740,564 |
| Operating grants and contributions | 15,970,402 | 16,350,335 |
| Capital grants and contributions | 541,354 | 783,441 |
| Less: expenses | <u>(56,643,763)</u> | <u>(53,642,387)</u> |
| Net program revenues (expenses) | <u>(10,556,521)</u> | <u>(8,768,047)</u> |
| Transfers: | | |
| State appropriations | <u>11,057,975</u> | <u>13,396,887</u> |
| Total transfers | <u>11,057,975</u> | <u>13,396,887</u> |
| Changes in net assets | 501,454 | 4,628,840 |
| Net assets - beginning | <u>74,778,772</u> | <u>70,149,932</u> |
| Net assets - ending | <u>\$ 75,280,226</u> | <u>\$ 74,778,772</u> |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 23 – RESTATEMENT OF NET ASSETS

During the year ended December 31, 2010, the Foundation performed an extensive analysis of the net asset classifications of their funds. In doing this, management determined that certain balances needed to be reported in a different net asset classification to conform with the donor's wishes. These changes resulted in the following restatement:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------------------------|----------------------------|-----------------------------------|-----------------------------------|----------------------------|
| June 30, 2010, as previously reported | \$ 1,194,105 | \$ 6,977,885 | \$12,590,427 | \$20,762,417 |
| Restatement | <u>814,730</u> | <u>18,464</u> | <u>(833,194)</u> | <u>-</u> |
| June 30, 2010, as restated | <u><u>\$ 2,008,835</u></u> | <u><u>\$ 6,996,349</u></u> | <u><u>\$11,757,233</u></u> | <u><u>\$20,762,417</u></u> |

Independent Auditors' Report On Compliance With Requirements
Applicable To Each Major Program And Internal Control Over
Compliance In Accordance With OMB Circular A-133

To the Honorable Nikki R. Haley,
Governor of the State of South Carolina
And to the Board of Trustees of
Francis Marion University
Florence, South Carolina

Compliance

We have audited Francis Marion University's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Francis Marion University's major federal programs for the year ended June 30, 2011. Francis Marion University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Francis Marion University's management. Our responsibility is to express an opinion on Francis Marion University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Francis Marion University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Francis Marion University's compliance with those requirements.

In our opinion, Francis Marion University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Francis Marion University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Francis Marion University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Francis Marion University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business-type activities of Francis Marion University as of and for the year ended June 30, 2011, and have issued our report thereon dated August 31, 2011, which contained unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the audit committee, management, others within the organization and the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in blue ink, appearing to read "Clint Brantley" followed by a stylized flourish and "E. Co. RA".

August 31, 2011

Independent Auditors' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Based On An Audit Of Financial Statements Performed
In Accordance With Government Auditing Standards

To the Honorable Nikki R. Haley,
Governor of the State of South Carolina
And to the Board of Trustees of
Francis Marion University
Florence, South Carolina

We have audited the financial statements of the business-type activities of Francis Marion University, a department of the State of South Carolina, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated August 31, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Francis Marion University Foundation, as described in our report on Francis Marion University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The Francis Marion University Foundation's financial statements were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Francis Marion University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Francis Marion University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Francis Marion University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Francis Marion University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Francis Marion University in a separate letter dated August 31, 2011.

This report is intended solely for the information of the audit committee, management, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink, reading "Chris Brantley & Co. PA". The signature is written in a cursive, flowing style.

August 31, 2011

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDED JUNE 30, 2011**

| Federal Grantor/Program Title | | Federal CFDA Number | Grant/Contract Number | Total Expenditures |
|--|-----|---------------------------|--------------------------|-----------------------|
| Direct Programs: | | | | |
| U.S. Department of Education | | | | |
| Federal Supplemental Educational Opportunity Grant | | 84.007 | PO07A103784 | 136,763 |
| Federal Direct Student Loans - 2010 | | 84.268 | | 98,094 |
| Federal Direct Student Loans - 2011 | | 84.268 | | 28,074,558 |
| Federal Work-Study Program - 2010 | | 84.033 | PO33A103784 | (171) |
| Federal Work-Study Program - 2011 | | 84.033 | PO33A103784 | 159,598 |
| Federal Perkins Loan Program - Federal Capital Contributions | | 84.038 | PO38A053784 | 2,135,975 |
| Federal Pell Grant Program - 2010 | | 84.063 | PO63P093163 | 224,962 |
| Federal Pell Grant Program - 2011 | | 84.063 | PO63P103163 | 9,865,833 |
| Federal Academic Competitiveness Grant - 2011 | | 84.375 | P375A103163 | 476,884 |
| Federal SMART Grant - 2011 | | 84.376 | P376S103163 | 303,000 |
| U.S. Nuclear Regulatory Commision | | | | |
| Nuclear Education Program | | 77.006 | NRC-38-09-891 | 47,210 |
| Research Financial Assistance Program | | 77.009 | NRC-38-09-926 | 76,409 |
| National Science Foundation | | | | |
| Mathematical and Physical Sciences | R&D | 47.049 | CHE-0714555 | 2,655 |
| U.S Department of Energy | | | | |
| Nuclear Energy Research, Development and Demonstration | | 81.121 | DE-NE0000100 | 15,000 |
| Total Direct Programs | | | | <u>41,616,770</u> |
| Indirect Programs: | | | | |
| U.S. Department of Education | | | | |
| Passed Through South Carolina Department of Education | | | | |
| Improving Teacher Quality | | 84.367A | 11-TQ-304-01 | 39,500 |
| Passed Through South Carolina Department of Education | | | | |
| Special Education - Grants to States | | 84.027A | 11-CO-304-01 | 80,782 |
| Passed Through National Writing Project Corp. | | | | |
| National Writing Project | | 84.928A | 00-SC10 Amdt. No. 13 | 29,187 |
| Passed Through South Carolina State Treasurer's Office | | | | |
| ARRA - State Fiscal Stabilization Funds | | 84.394 | | 2,811,497 |
| Passed Through South Carolina Department of Education | | | | |
| Mathematics and Science Partnership Programs | | 84.366 | 11MS304-01 | 60,195 |
| U.S. Department of Energy | | | | |
| Passed through the South Carolina Energy Office | | | | |
| ARRA - State Energy Program | | 81.041 | S09-0114 | 252,737 |
| National Center for Research Resources (NCRR)/NIH | | | | |
| Passed through the South Carolina Research Foundation | | | | |
| SC IDeA Networks of Biomedical Research Excellence | R&D | 93.389 | 2P20RR016461-10 | 252,928 |
| National Science Foundation | | | | |
| Passed through Clemson University | | | | |
| Office of Cyberinfrastructure - Project TIGER | R&D | 47.080 | OCI-1063679 | 11,469 |
| National Aeronautics and Space Administration | | | | |
| Passed through the College of Charleston | | | | |
| Space Grant Management Award | | 43.001 | NNX10AM76H | 2,000 |
| Total Indirect Programs | | | | <u>3,540,295</u> |
| Total Federal Assistance | | | | <u>\$ 45,157,065</u> |

See Notes to Schedule of Expenditures of Federal Awards.

FRANCIS MARION UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Francis Marion University and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A – 133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FEDERAL AWARD EXPENDITURES

Expenditures for student financial aid programs include the federal share of students' Federal Supplemental Educational Opportunity Grant (FSEOG) program grants and Federal Work Study (FWS) program earnings, certain other federal financial aid for students and administrative cost allowances, where applicable.

NOTE 3 – LOAN PROGRAMS

The Direct Loan program provides loans to students and their parents. The loans are made directly from the federal government; therefore there is no loan balance recorded at the University. The totals of loans processed for the current fiscal year are:

| | |
|------------------------------------|-----------------------------|
| Direct Student Loan - Subsidized | \$ 12,248,760 |
| Direct Student Loan - Unsubsidized | 14,189,075 |
| PLUS | <u>1,734,817</u> |
| Total | <u><u>\$ 28,172,652</u></u> |

The Federal Perkins Loan Program is administered directly by the University and balances and transactions relating to the program are included in the University's financial statements. The balance of loans outstanding under the Federal Perkins Loan program was \$1,939,831 as of June 30, 2011. The expenditures for June 30, 2011 are calculated as follows:

| | |
|----------------------------|----------------------------|
| June 30, 2010 loan balance | \$ 1,935,107 |
| Current year loans made | <u>200,868</u> |
| Total | <u><u>\$ 2,135,975</u></u> |

FRANCIS MARION UNIVERSITY
Summary Schedule Of Prior Audit Findings
June 30, 2011

Findings Relating to the Financial Statements:

There were no findings relating to the financial statements.

Findings and Questioned Costs Relating to Federal Awards:

There were no findings and questioned costs relating to federal awards.

FRANCIS MARION UNIVERSITY
Schedule of Findings and Questioned Costs
June 30, 2011

Summary of Auditors' Results:

GAGAS

An unqualified opinion was issued on Francis Marion University's basic financial statements dated August 31, 2011.

There were no significant deficiencies or material weaknesses. No instances of noncompliance material to the financial statement were disclosed by the audit of their financial statements.

A-133

An unqualified opinion was also issued on compliance of major programs at Francis Marion University dated August 31, 2011. No significant deficiencies in the internal control over major programs were found. Our audit disclosed no audit findings that are required to be reported under OMB Circular A-133.

The major programs at Francis Marion University are the Student Financial Aid Cluster and State Fiscal Stabilization Fund CFDA # 84.394 from the U.S. Department of Education. Type A or major programs are defined as those that expended \$300,000 or more. Francis Marion University's total federal awards expended for the year ended June 30, 2011 were between \$10 million and \$100 million.

Francis Marion University is not a low-risk auditee according to the criteria in OMB Circular A-133.

Findings Relating to the Financial Statements:

There were no findings relating to the financial statements.

Findings and Questioned Costs Relating to Federal Awards:

There were no findings and questioned costs relating to federal awards.

| <u>Financial Aid Cluster</u> | <u>Federal CFDA Number</u> |
|--|------------------------------------|
| U.S. Department of Education | |
| Federal Supplemental Educational Opportunity Grant | 84.007 |
| Federal Work-Study Program | 84.033 |
| Federal Perkins Loan Program - Federal Capital Contributions | 84.038 |
| Federal Pell Grant Program | 84.063 |
| Federal Direct Student Loans | 84.268 |
| Federal Academic Competitiveness Grant | 84.375 |
| Federal SMART Grant | 84.376 |